

# **PUBLIC DISCLOSURE**

August 5, 2019

## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

Farmers State Bank  
RSSD# 749840

401 Main Street  
Lake View, Iowa 51450

Federal Reserve Bank of Chicago

230 South LaSalle Street  
Chicago, Illinois 60604-1413

**NOTE:** This document is an evaluation of this bank's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the bank. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this bank. The rating assigned to this bank does not represent an analysis, conclusion or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial bank.

## TABLE OF CONTENTS

PERFORMANCE EVALUATION.....	2
SCOPE OF EXAMINATION .....	2
DESCRIPTION OF INSTITUTION .....	3
DESCRIPTION OF INSTITUTION'S OPERATIONS IN NON-METROPOLITAN IOWA .....	4
CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA .....	10
LENDING TEST .....	10
FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW .....	14
APPENDIX A – MAP OF ASSESSMENT AREA .....	15
APPENDIX B – ADDITIONAL LENDING TABLES .....	16
APPENDIX C – SCOPE OF EXAMINATION .....	18
APPENDIX D – GLOSSARY .....	19

## FARMERS STATE BANK'S CRA RATING

Farmers State Bank's Community Reinvestment Act (CRA) performance is rated Satisfactory. The loan-to-deposit ratio is less than reasonable given the bank's size, financial condition, and the credit needs of its assessment area. A majority of its loans were made in its assessment area. The geographic distribution reflects reasonable dispersion throughout the assessment area. In addition, the loan distribution reflects reasonable penetration among individuals of different income levels and businesses of different sizes. Neither the bank nor this Reserve Bank received any CRA-related complaints since the previous CRA evaluation.

### SCOPE OF EXAMINATION

Farmers State Bank's CRA performance was evaluated using the Federal Financial Institutions Examination Council's (FFIEC) Small Institution CRA Examination Procedures. The evaluation was performed in the context of information about the institution and its assessment area, such as asset size, financial condition, competition, and economic and demographic characteristics. The assessment area for this evaluation includes two contiguous, middle-income census tracts located in southern Sac County, Iowa (0802.00 and 0803.00).

Lending activities for the bank's major products were reviewed, which included small business and home mortgage loans. The sample period for all loan origination types is January 1, 2015 through December 31, 2017.

Performance in the assessment area was evaluated using the streamlined assessment method for small banks based on the following performance criteria:

- ***Loan-to-Deposit Ratio*** – A 16-quarter average loan-to-deposit ratio was calculated for the bank and compared to a sample of local competitors.
- ***Lending in the Assessment Area*** – A sample of the bank's home mortgage and small business loans originated from January 1, 2015 through December 31, 2017 were reviewed to determine the percentage of loans originated in the assessment area.
- ***Geographic Distribution of Lending in the Assessment Area*** – A sample of the bank's home mortgage and small business loans originated in the assessment area from January 1, 2015 through December 31, 2017 were analyzed to determine the extent to which the bank is making loans in geographies of different income levels, particularly those designated as low- and moderate-income.
- ***Lending to Borrowers of Different Income and to Businesses of Different Sizes*** – A sample of the bank's home mortgage and small business loans originated in the assessment area from January 1, 2015 through December 31, 2017 were reviewed to determine the

distribution among borrowers of different income levels, particularly those considered low- or moderate-income, and to businesses with different revenue sizes.

- **Response to Substantiated Complaints** – Neither Farmers State Bank nor this Reserve Bank received any CRA-related complaints since the previous evaluation.

In addition, two community representatives were contacted in connection with this examination to provide information regarding local economic and socio-economic conditions in the assessment area. The following types of organizations were contacted: affordable housing and economic development.

## DESCRIPTION OF INSTITUTION

Farmers State Bank is a subsidiary of J.E.M.S. Inc., a one-bank holding company headquartered in Lake View, Iowa. The bank operates one main office and one full-service automated teller machine (ATM), which are both located in Lake View, Iowa. No branches or ATMs have been opened or closed since the previous evaluation.

As of March 31, 2019, the bank reported assets of \$34.3 million based on the Uniform Banking Performance Report. Farmers State Bank offers residential real estate, commercial, agricultural, and consumer loans. The portfolio consists primarily of residential real estate loans, which represent 34.5 percent of the portfolio. The loan portfolio composition is detailed below. Overall, the bank provides a range of traditional retail banking services that are available to the community it serves.

Composition of Loan Portfolio as of March 31, 2019 (\$ are in 000s)		
Type	\$	%
Residential Real Estate	4,475	34.5
Commercial	3,268	25.2
Agricultural	3,257	25.1
Consumer	1,959	15.1
Other	27	0.2
Total Loans	12,986	100.0
<i>Note: Percentages may not total 100.0 due to rounding</i>		

There are no known legal, financial or other factors impeding the bank's ability to help meet the credit needs in its community.

The bank was rated satisfactory under the CRA at its previous evaluation conducted on June 15, 2015.

## DESCRIPTION OF INSTITUTION'S OPERATIONS IN NON-METROPOLITAN IOWA

Farmers State Bank maintains all of its operations in Lake View, Iowa, which is located in Northwest Iowa. The assessment area, as depicted in the Assessment Area Map in Appendix A, consists of census tracts 0802.00 and 0803.00 in the southern portion of Sac County. The bank's assessment area and tract income designations have remained unchanged since the previous evaluation. Based on 2017 U.S. Census Bureau data, the assessment area is composed of two middle-income census tracts. Both census tracts are designated by the FFIEC as distressed due to population loss and underserved due to their remote, rural location. .

The bank's peer group includes all insured commercial banks that have assets less than \$50 million, located in a non-metropolitan statistical area, with one full-service office. The Federal Deposit Insurance Corporation's (FDIC) Deposit Market Share Report, dated June 30, 2018, ranks Farmers State Bank sixth among 10 FDIC-insured institutions with operations located in Sac County. The bank has a 7.4 percent market share, compared to market leaders Iowa State Bank, United Bank of Iowa, and Bank Midwest with 27.7 percent, 19.0 percent, and 13.2 percent, respectively.

Additional demographic data for the assessment area is provided in the following table on page 5.

Assessment Area: 2017 IA Non MSA									
Income Categories	Tract Distribution		Families by Tract Income		Families < Poverty Level as % of Families by Tract		Families by Family Income		
	#	%	#	%	#	%	#	%	
Low-income	0	0.0	0	0.0	0	0.0	160	11.7	
Moderate-income	0	0.0	0	0.0	0	0.0	245	17.9	
Middle-income	2	100.0	1,371	100.0	50	3.6	445	32.5	
Upper-income	0	0.0	0	0.0	0	0.0	521	38.0	
Unknown-income	0	0.0	0	0.0	0	0.0	0	0.0	
Total Assessment Area	2	100.0	1,371	100.0	50	3.6	1,371	100.0	
	Housing Units by Tract	Housing Types by Tract							
		Owner-Occupied			Rental		Vacant		
		#	%	%	#	%	#	%	
Low-income	0	0	0.0	0.0	0	0.0	0	0.0	
Moderate-income	0	0	0.0	0.0	0	0.0	0	0.0	
Middle-income	2,774	1,682	100.0	60.6	369	13.3	723	26.1	
Upper-income	0	0	0.0	0.0	0	0.0	0	0.0	
Unknown-income	0	0	0.0	0.0	0	0.0	0	0.0	
Total Assessment Area	2,774	1,682	100.0	60.6	369	13.3	723	26.1	
	Total Businesses by Tract	Businesses by Tract & Revenue Size							
		Less Than or = \$1 Million		Over \$1 Million		Revenue Not Reported			
	#	%	#	%	#	%	#	%	
Low-income	0	0.0	0	0.0	0	0.0	0	0.0	
Moderate-income	0	0.0	0	0.0	0	0.0	0	0.0	
Middle-income	292	100.0	264	100.0	21	100.0	7	100.0	
Upper-income	0	0.0	0	0.0	0	0.0	0	0.0	
Unknown-income	0	0.0	0	0.0	0	0.0	0	0.0	
Total Assessment Area	292	100.0	264	100.0	21	100.0	7	100.0	
	Percentage of Total Businesses:			90.4			7.2		
	Total Farms by Tract	Farms by Tract & Revenue Size							
		Less Than or = \$1 Million		Over \$1 Million		Revenue Not Reported			
#	%	#	%	#	%	#	%		
Low-income	0	0.0	0	0.0	0	0.0	0	0.0	
Moderate-income	0	0.0	0	0.0	0	0.0	0	0.0	
Middle-income	97	100.0	96	100.0	1	100.0	0	0.0	
Upper-income	0	0.0	0	0.0	0	0.0	0	0.0	
Unknown-income	0	0.0	0	0.0	0	0.0	0	0.0	
Total Assessment Area	97	100.0	96	100.0	1	100.0	0	0.0	
	Percentage of Total Farms:			99.0			1.0		
2017 FFIEC Census Data & 2017 Dun & Bradstreet information according to 2015 ACS									
Note: Percentages may not add to 100.0 percent due to rounding									

*The median family income levels (MFI) for census tracts are calculated using the income data from the United States Census Bureau's American Community Survey (ACS) and geographic definitions from the Office of Management and Budget (OMB) and are updated approximately every five years (.12(m) Income Level). The income data used to calculate geographic income designations changed between 2016 and 2017. Accordingly, lending activity that took place in calendar years up to and including 2016 are evaluated based on ACS income level definitions from the five-year survey data set 2006-2010. Lending activity performed in 2017 and beyond are evaluated based on ACS income level definitions from the five-year survey data set 2011-2015.*

### Population Characteristics

The table below illustrates the population trends for the assessment area and the state of Iowa from 2010 to 2015. According to 2015 U.S. Census Bureau demographic data, the assessment area's population decreased 4.5 percent since 2010, while Sac County's population declined 2.4 percent. Conversely, the state of Iowa has seen a population increase of 1.6 percent during the same time period.

According to community representatives, Sac County is demographically homogeneous with a vast majority of the population over the age of 60. The aging population contributes to a decreasing population trend. Further, recent high school and college graduates are moving out of the county to more metropolitan areas due to the diversified job opportunities those areas present.

Population Change 2010 and 2011-2015			
Area	2010 Population	2011-2015 Population	Percentage Change
<b>Assessment Area</b>	5,016	4,792	-4.5
<b>Sac County, IA</b>	10,350	10,101	-2.4
<b>State of Iowa</b>	3,046,355	3,093,526	1.6
Source: U.S. Census Bureau: Decennial Census - 2010 U.S. Census Bureau: American Community Survey Data: 2011-2015			

### Income Characteristics

The following table presents the median family income for families living in the assessment area, Sac County, and the state of Iowa. According to the American Community Survey, the assessment area had a median family income (MFI) of \$63,847. This figure represents an increase in MFI of 17.8 percent from 2006-2010 to 2011-2015, a substantially higher increase than the state of Iowa which experienced a 9.2 percent increase during the same time period.

According to community representatives, increased pressure on the labor market has resulted in local firms and companies raising the salaries of their employees. Further, certain industries, such as manufacturing, have expanded their operations within Sac County creating additional high paying jobs.

Median Family Income Change			
Area	2006-2010 Median Family Income (\$)	2011-2015 Median Family Income (\$)	Percentage Change
Assessment Area	54,189	63,847	17.8
Sac County, IA	54,304	63,750	17.4
State of Iowa	61,804	67,466	9.2
Source: U.S. Census Bureau: American Community Survey Data: 2006-2010 U.S. Census Bureau: American Community Survey Data: 2011-2015			

## Housing Characteristics

The following table represents the recent housing cost trends within the assessment area, Sac County, and the state of Iowa. According to the 2011-2015 American Community Survey, the assessment area had a median housing value of \$93,625 and median gross rent of \$523, compared to Sac County, which had a median housing value of \$81,200 and median gross rent of \$534. Median housing values increased 14.7 percent in the assessment area and 5.7 percent in Sac County; while median gross rents increased 20.0 percent in the assessment area and 7.0 percent in the county from 2006-2010 to 2011-2015. During the same period, the state of Iowa had a median housing value of \$129,200 and a median gross rent of \$697. The state of Iowa experienced an increase in median housing value of 8.4 percent, as well as an increase in median gross rent of 13.0 percent from 2006-2010 to 2011-2015.

Community representatives stated that Sac County has an aging housing stock, and that many of the available properties are in poor or substandard condition. The aging housing stock presents an opportunity for new housing and increased construction within the county. Also, community representatives stated that housing values within the assessment have been increasing rapidly in recent years due to the attractiveness in living close to lakes, which has positively impacted the housing values within towns such as Lake View and nearby Wall Lake, explaining the higher median housing values in the assessment area. However, this has adversely impacted the availability of affordable housing and rental units within the area, and has caused affordable housing to become a more pressing need.

Trends in Housing Costs				
Area	2006-2010 Median Housing Value (\$)	2011-2015 Median Housing Value (\$)	2006-2010 Median Gross Rent (\$)	2011-2015 Median Gross Rent (\$)
Assessment Area	81,594	93,625	436	523
Sac County, IA	76,800	81,200	499	534
State of Iowa	119,200	129,200	617	697
Source: U.S. Census Bureau: American Community Survey Data: 2006-2010 U.S. Census Bureau: 2011-2015 American Community Survey: 2011-2015				

A common method to compare relative affordability of housing across geographic areas is the affordability ratio, which is defined in Appendix C. A higher ratio generally suggests more



affordable housing opportunities in the area. Based on the 2011-2015 American Community Survey data, the affordability for the assessment area was 0.56. The affordability ratio for Sac County was 0.61, in comparison to 0.41 for the state of Iowa. As such, the affordability ratios suggest more affordable housing opportunities in the assessment area and county as a whole.

### Bankruptcy Trends

According to the Administrative Office of the U.S. Courts, Sac County experienced a steady decrease in the personal bankruptcy filing rate. Most recently, the county experienced a bankruptcy filing rate of 0.8 per 1,000 in population in 2016. The bankruptcy filing rate for the state of Iowa is slightly higher at 1.3 per 1,000 in population in 2016. The difference in the filing rate can be attributed to the strong economic conditions in Sac County.

Personal Bankruptcy Filing Rate (per 1,000 population)				
Area	2013	2014	2015	2016
Sac County, IA	1.2	1.2	0.8	0.8
State of Iowa	1.8	1.6	1.4	1.3

*Source: Administrative Office of The U.S. Courts*

The Federal Reserve Bank of Chicago conducted a study on the change in foreclosure inventory rate at the county level. The foreclosure inventory rate measures the number of residential properties in some phase of foreclosure. It excludes properties that have completed the foreclosure cycle. In Sac County the most recent foreclosure rate (July 2018) was 1.7 percent. This is slightly elevated compared to the state of Iowa which had a foreclosure inventory rate of 0.7 for the same time period. Overall, Sac County saw a slight increase in the foreclosure rate towards the end of 2017, with December experiencing the highest foreclosure rate in recent years at 4.0 percent. However, in recent months, the county's foreclosure rate has steadily declined to its current level. The foreclosure rates in Sac County and the state of Iowa have generally declined since 2011, indicating that the housing crisis that affected much of the nation, including the assessment area, has abated.

### Employment Conditions

The following table presents the unemployment trends for Sac County and the state of Iowa from 2013 to 2016. In 2016, the unemployment rate for Sac County was 3.1 percent, which is slightly below the state average (3.7 percent). Unemployment has steadily declined from 2013 to 2016, with the exception of 2014, which is generally consistent with national trends due to improving economic conditions. As previously mentioned, community representatives have stated that a number of manufacturing firms have expanded their operations within the assessment area in recent years, which has resulted in an increased demand for labor and job openings. The representatives anticipate the manufacturing industry to continue performing well in coming years, and as a result the unemployment rate will continue to decline.

Unemployment Rates				
Area	2013	2014	2015	2016
Sac County, IA	4.0	4.1	3.4	3.1
State of Iowa	4.6	4.4	3.8	3.7

Source: Bureau of Labor Statistics: Local Area Unemployment Statistics

## Industry Characteristics

The largest employers within the bank's assessment area are listed below. Based on data collected by the U.S. Department of Labor, the assessment area has a diverse employment base but is heavily impacted by schools and manufacturing.

Largest Employers in the Assessment Area		
Company	Number of Employees	Industry
East Sac High School	100	Schools
Loring Hospital	92	Hospitals
EVAPCO Inc.	85	Evaporative Coolers Manufacturing & Wholesale
VT Industries	81	Counter Tops – Manufacturing
Twilight Acres	79	Nursing & Convalescent Homes
Prism Marketing	72	Call Centers
Odebolt-Arthur Middle School	70	Schools
Schaller-Crestland Elementary	60	Schools
Park View Rehabilitation Center	60	Rehabilitation Services

Source: Business information provided by Infogroup®, Omaha, NE

## Community Representatives

Two community representatives were contacted during the evaluation to better understand the credit needs and demographic characteristics of the assessment area. Both representatives indicated that local economic conditions are favorable and have continued to trend in a positive direction. One community representative stated that one of the largest struggles for Sac County is retaining current and attracting new residents. In addition to population loss, the area has been experiencing struggles due to the recent consolidation of local schools. Representatives said this has put strain on families with children as a result of the lack of stability and increased travel for elementary and secondary education students. With respect to the decrease in unemployment and increase in income growth, Sac County has been seeing positive trends and both community representatives expect these trends to continue for the foreseeable future.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

*Performance standards for small banks consist of the following, as applicable: the bank's loan-to-deposit (LTD) ratio, the percentage of loans and other lending-related activities located in the bank's assessment area, the record of lending to borrowers of different income levels and businesses of different sizes, the geographic distribution of loans, and the record of taking action in response to written complaints. To determine CRA performance, the preceding standards are analyzed and evaluated within the assessment area context, which includes, but is not limited to, comparative analyses of the assessment area and the state and the non-metropolitan portions of the state demographic data on median income, nature of housing stock, housing costs, and other relevant data pertaining to the bank's assessment area.*

### LENDING TEST

Farmers State Bank's performance relative to the lending test is rated Satisfactory based on the following factors: loan-to-deposit ratio is less than reasonable given the bank's size, financial condition and the credit needs of its assessment area; a majority of the bank's loans were originated in the assessment area; the geographic distribution of loans reflects reasonable dispersion throughout the assessment area; And the borrower distribution reflects reasonable penetration among individuals of different income levels and businesses of different revenue sizes. Neither the bank nor this Reserve Bank received any CRA-related complaints since the previous evaluation.

#### Loan-to-Deposit Ratio

The following table compares the bank's loan-to-deposit (LTD) ratio to its local competitors. Farmers State Bank's LTD ratio is less than reasonable given its size, financial condition, and assessment area credit needs. Also considered were demographic factors, the bank's lending and deposit strategy, economic conditions, and lending opportunities with the assessment area. The bank's most recent quarterly LTD ratio was 41.7 percent, with a 16-quarter average of 44.8 percent.

Farmers State Bank's LTD ratio is below comparable competitors in the area. The bank's 16-quarter average LTD ratio is lower than seven of the eight competitors listed below, a majority of whom are similar in asset size and operate in non-metropolitan Iowa in or near Sac County. Further, the bank's 16-quarter average LTD ratio during the previous examination was 48.3 percent, and has continued to steadily decline. As illustrated previously, according to the FDIC Deposit Market Share Report, the top three institutions in the assessment area hold over 50.0 percent of the market share for deposits, which suggests a highly competitive deposit market. The bank's deposit market share, intense competition, and an overall stagnant loan demand help to explain the low LTD ratio; however, Farmers State Bank's LTD continues to significantly lag behind its competitors.

Comparative Loan-to-Deposit Ratios	
Institution	Loan-to-Deposit Ratio (%)
	16 – Quarter Average
Farmers State Bank	44.8
<b>Competitors</b>	
Westside State Bank	103.0
Iowa State Bank	90.3
Templeton Savings Bank	85.2
Breda Savings Bank	77.9
First National Bank of Manning	67.7
Citizens Bank	57.8
Manson State Bank	47.7
State Bank of Schaller	24.8

### Assessment Area Concentration

The majority of home mortgage and small business loans were originated in the assessment area, indicating Farmers State Bank is actively serving the credit needs of its community. Specifically, the bank originated 67.9 percent of its total loans by number and 83.3 percent by dollar amount inside the assessment area during the evaluation period. Home mortgage lending had the highest concentration inside the assessment area at 86.1 percent by volume and 91.8 percent by dollar. Also, small business lending had 58.6 percent by volume and 71.3 percent by dollar amount inside the assessment area. Ultimately, the percentage of home mortgages and small business loan originations within the assessment area indicates the bank is helping meet the credit needs of the local area.

Lending Inside and Outside the Assessment Area								
Loan Type	Inside				Outside			
	#	%	\$(000s)	%	#	%	\$(000s)	%
Home Mortgage	31	86.1	2,463	91.8	5	13.9	220	8.2
Small Business	41	58.6	1,337	71.3	29	41.4	540	28.7
<b>Total</b>	<b>72</b>	<b>67.9</b>	<b>3,801</b>	<b>83.3</b>	<b>34</b>	<b>32.1</b>	<b>760</b>	<b>16.7</b>

Note: Percentages may not add to 100.0 percent due to rounding.

### Geographic Distribution of Loans

The assessment area is comprised only of middle-income census tracts and therefore a meaningful analysis could not be performed. The dispersion of the loans in the assessment area was reviewed to determine if the bank is sufficiently serving the census tracts included in the assessment area. Examiners determined that there were no conspicuous unexplained gaps in the contiguous census tracts.

### Lending to Borrowers of Different Income Levels and to Businesses of Different Sizes

An analysis of home mortgage and small business loans was conducted to determine the level of

lending to borrowers of different income levels and businesses of different revenues. Overall, the loan distribution reflects reasonable penetration among individuals of different income levels, and excellent penetration among businesses of different sizes. Home mortgage lending received higher weight for this analysis as this is the primary product for the bank.

*For the purposes of this review, loans made in calendar year 2016 or before were analyzed based on 2006-2010 American Community Survey income designations for individuals<sup>1</sup>. Loans made in calendar year 2017 or after were analyzed based on 2011-2015 American Community Survey income designations for individuals.*

### Home Mortgage Lending

Home mortgage lending reflects reasonable penetration among borrowers of different income levels. The bank's home mortgage lending to borrowers of different income levels varied throughout the review period from 2015 to 2017. In 2017, Farmers State Bank originated 18.2 percent of mortgage loans by volume and 5.9 percent by dollar amount to low-income borrowers, which comprise 11.7 percent of the families within the assessment area. Further, the bank originated 27.3 percent of home mortgage loans by volume and 18.9 percent by dollar amount to moderate-income borrowers, which comprise 17.9 percent of the families within the assessment area. The bank's performance of home mortgage lending in 2017 was slightly below the performance it had in the previous years of 2016 and 2015.

In 2016, the bank originated 12.5 percent by volume and 24.2 percent by dollar amount of home mortgage loans originated to low-income borrowers, as well as 37.5 percent by volume and 36.4 percent by dollar amount to moderate-income borrowers. Further, the bank originated 33.3 percent of its home mortgage loans by volume and 14.0 percent by dollar amount to low-income borrowers in 2015, and 16.7 percent by volume and 19.3 percent by dollar amount to moderate-income borrowers. Within the assessment area during 2016 and 2015 low-income and moderate-income families comprised 16.1 percent and 20.5 percent of families, respectively.

Overall, lending is consistent with the bank's business strategy and the demographic characteristics of the community, particularly considering housing availability and the demographics of the assessment area. Please refer to Appendix B for 2015 and 2016 borrower distribution tables.

---

<sup>1</sup> Income levels for individuals are calculated annually by the FFIEC using geographic definitions from the OMB, income data from the ACS and the Consumer Price Index from the Congressional Budget Office (.12(m) Income Levels).

Borrower Distribution of Home Mortgage Loans						
Assessment Area: 2017 IA Non MSA						
	Borrower Income Levels	Bank & Demographic Comparison 2017				Families by Family Income %
		Count		Dollar		
		#	%	\$ (000s)	\$ %	
Totals	Low	2	18.2	81	5.9	11.7
	Moderate	3	27.3	259	18.9	17.9
	Middle	2	18.2	260	18.9	32.5
	Upper	4	36.4	774	56.3	38.0
	Unknown	0	0.0	0	0.0	0.0
	Total	11	100.0	1,374	100.0	100.0

2017 FFIEC Census Data

Note: Percentages may not add to 100.0 percent due to rounding

### Small Business Lending

Small business lending reflects excellent penetration among businesses of different sizes. In 2017, Farmers State Bank originated 93.3 percent of its small business loans by number and 75.1 percent by dollar amount to businesses with gross annual revenue of \$1 million or less. Further, 92.9 percent of the bank's small business loans were to small businesses and in amounts equal to \$100,000 or less. The figures exceed the total number of small businesses within the assessment area which comprise 90.4 percent of all businesses.

In 2015 and 2016, the bank originated 100.0 percent of small business loans to businesses with gross annual revenues of \$1 million or less. This outperforms the demographic of the assessment area, in which 92.4 percent of businesses in 2015 and 91.1 percent of businesses in 2016 had gross annual revenues of \$1 million or less. Further, 100.0 percent of small business loans by volume and dollar amount in 2015, and 87.5 percent by volume and 39.6 percent by dollar amount in 2016, were in amounts equal to \$100,000 or less. Emphasis is placed on loans in amounts of \$100,000 or less because these loans are considered to be most beneficial to small businesses, indicating the bank's willingness to meet the credit needs of small businesses. Please refer to Appendix B for 2015 and 2016 borrower distribution tables.

Small Business Lending By Revenue & Loan Size							
Assessment Area: 2017 IA Non MSA							
Product Type		Bank & Demographic Comparison					
		2017					
		Count Bank		Dollar Bank		Total Businesses	
		#	%	\$ 000s	\$ %	%	
Small Business	Revenue	\$1 Million or Less	28	93.3	754	75.1	90.4
		Over \$1 Million or Unknown	2	6.7	250	24.9	9.6
		Total	30	100.0	1,004	100.0	100.0
	Loan Size	\$100,000 or Less	27	90.0	451	44.9	
		\$100,001 - \$250,000	3	10.0	553	55.1	
		\$250,001 - \$1 Million	0	0.0	0	0.0	
		Total	30	100.0	1,004	100.0	
	Loan Size & Rev \$1 Mill or Less	\$100,000 or Less	26	92.9	401	53.2	
		\$100,001 - \$250,000	2	7.1	353	46.8	
		\$250,001 - \$1 Million	0	0.0	0	0.0	
		Total	28	100.0	754	100.0	

Originations & Purchases

2017 FFIEC Census Data & 2017 Dun & Bradstreet information according to 2015 ACS

Note: Percentages may not add to 100.0 percent due to rounding

## Response to Complaints

The bank or this Reserve Bank has not received any CRA-related complaints since the previous examination.

## FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

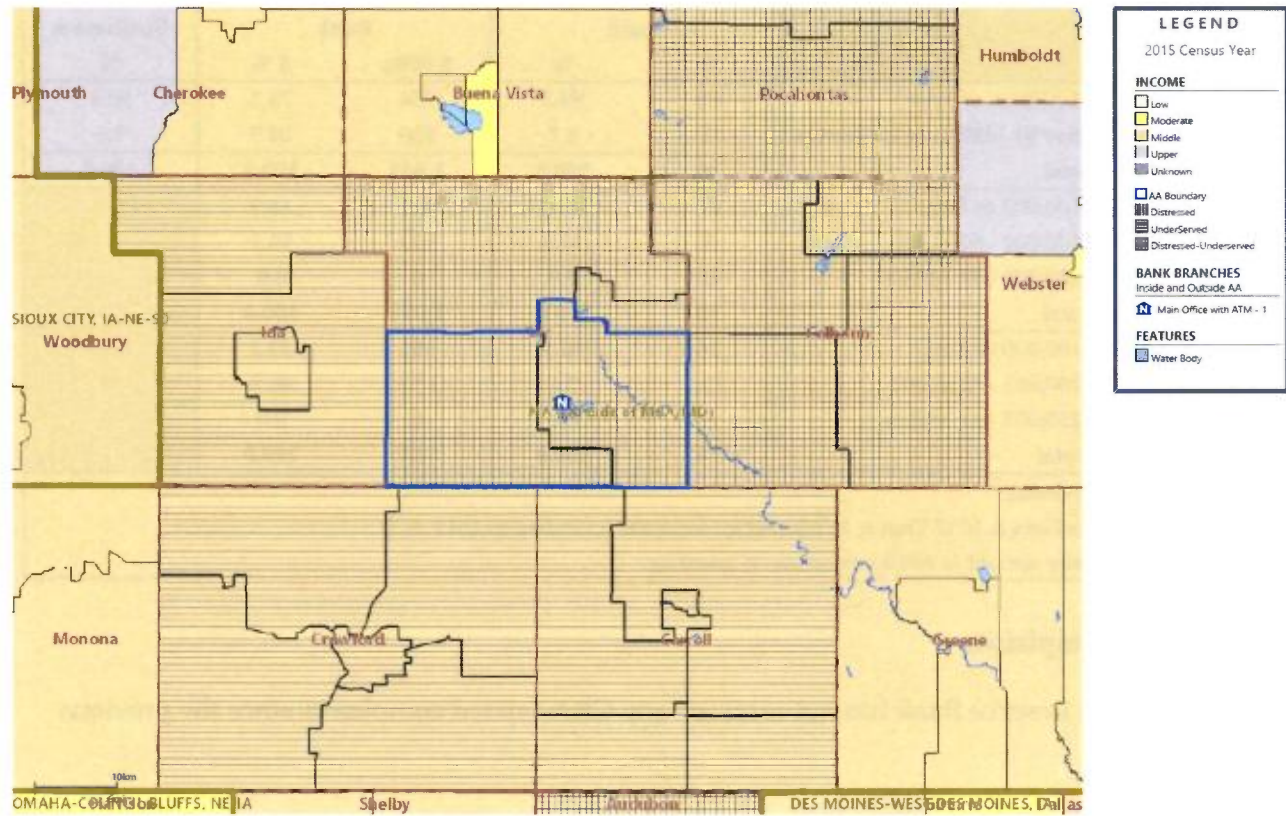
No evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs was identified.



## APPENDIX A – Map of Assessment Area

### Farmers State Bank 749840

IA Non MSA





## APPENDIX B – Additional Lending Tables

Borrower Distribution of Home Mortgage Loans						
Assessment Area: 2015 IA Non MSA						
	Borrower Income Levels	Bank & Demographic Comparison 2015				Families by Family Income %
		Count		Dollar		
		#	%	\$ (000s)	\$ %	
Totals	Low	4	33.3	110	14.0	16.1
	Moderate	2	16.7	152	19.3	20.5
	Middle	4	33.3	303	38.5	26.5
	Upper	2	16.7	223	28.3	36.9
	Unknown	0	0.0	0	0.0	0.0
	Total	12	100.0	788	100.0	100.0
2015 FFIEC Census Data						
Note: Percentages may not add to 100.0 percent due to rounding						

Borrower Distribution of Home Mortgage Loans						
Assessment Area: 2016 IA Non MSA						
	Borrower Income Levels	Bank & Demographic Comparison 2016				Families by Family Income %
		Count		Dollar		
		#	%	\$ (000s)	\$ %	
Totals	Low	1	12.5	73	24.2	16.1
	Moderate	3	37.5	110	36.4	20.5
	Middle	2	25.0	29	9.6	26.5
	Upper	2	25.0	90	29.8	36.9
	Unknown	0	0.0	0	0.0	0.0
	Total	8	100.0	302	100.0	100.0
2016 FFIEC Census Data						
Note: Percentages may not add to 100.0 percent due to rounding						

Small Business Lending By Revenue & Loan Size							
Assessment Area: 2015 IA Non MSA							
Product Type			Bank & Demographic Comparison				
			2015				
			Count Bank		Dollar Bank		Total Businesses
			#	%	\$ 000s	\$ %	%
Small Business	Revenue	\$1 Million or Less	3	100.0	88	100.0	92.4
		Over \$1 Million or Unknown	0	0.0	0	0.0	7.6
		Total	3	100.0	88	100.0	100.0
	Loan Size	\$100,000 or Less	3	100.0	88	100.0	
		\$100,001 - \$250,000	0	0.0	0	0.0	
		\$250,001 - \$1 Million	0	0.0	0	0.0	
		Total	3	100.0	88	100.0	
	Loan Size & Rev \$1 Mill or Less	\$100,000 or Less	3	100.0	88	100.0	
		\$100,001 - \$250,000	0	0.0	0	0.0	
		\$250,001 - \$1 Million	0	0.0	0	0.0	
		Total	3	100.0	88	100.0	
	Originations & Purchases						
2015 FFIEC Census Data & 2015 Dun & Bradstreet information according to 2010 ACS							
Note: Percentages may not add to 100.0 percent due to rounding							

Small Business Lending By Revenue & Loan Size							
Assessment Area: 2016 IA Non MSA							
Product Type		Bank & Demographic Comparison					
		2016				Total Businesses %	
		Count Bank		Dollar Bank			
		#	%	\$ 000s	\$ %		
Small Business	Revenue	\$1 Million or Less	8	100.0	245	100.0	91.1
		Over \$1 Million or Unknown	0	0.0	0	0.0	8.9
		Total	8	100.0	245	100.0	100.0
	Loan Size	\$100,000 or Less	7	87.5	97	39.6	
		\$100,001 - \$250,000	1	12.5	148	60.4	
		\$250,001 - \$1 Million	0	0.0	0	0.0	
		Total	8	100.0	245	100.0	
	Loan Size & Rev \$1 Mill or Less	\$100,000 or Less	7	87.5	97	39.6	
		\$100,001 - \$250,000	1	12.5	148	60.4	
		\$250,001 - \$1 Million	0	0.0	0	0.0	
		Total	8	100.0	245	100.0	
Originations & Purchases							
2016 FFIEC Census Data & 2016 Dun & Bradstreet information according to 2010 ACS							
Note: Percentages may not add to 100.0 percent due to rounding							

### APPENDIX C – Scope of Examination

SCOPE OF EXAMINATION			
TIME PERIOD REVIEWED		Home mortgage and small business loans originated from January 1, 2015 through December 31, 2017.	
FINANCIAL INSTITUTION			PRODUCTS REVIEWED
Farmers State Bank			Home Mortgage Loans Small Business Loans
AFFILIATE(S)	AFFILIATE RELATIONSHIP		PRODUCTS REVIEWED
None	N/A		N/A
LIST OF ASSESSMENT AREAS AND TYPE OF EXAMINATION			
ASSESSMENT AREA	TYPE OF EXAMINATION	BRANCHES VISITED	OTHER INFORMATION
Non-Metropolitan Iowa	Full scope	N/A	N/A

## APPENDIX D – Glossary

**Affiliate:** Any company that controls, is controlled by, or is under common control with another company. A company is under common control with another company if the same company directly or indirectly controls both companies. A bank subsidiary is controlled by the bank and is, therefore, an affiliate.

**Affordability ratio:** To determine housing affordability, the affordability ratio is calculated by dividing median household income by median housing value. This ratio allows the comparison of housing affordability across assessment areas and/or communities. An area with a high ratio generally has more affordable housing than an area with a low ratio.

**Aggregate lending:** The number of loans originated and purchased by all lenders subject to reporting requirements as a percentage of the aggregate number of loans originated and purchased by all lenders in the MSA/assessment area.

**American Community Survey Data (ACS):** The American Community Survey (ACS) data is based on a nationwide survey designed to provide local communities with reliable and timely demographic, social, economic, and housing data each year. The Census Bureau first released data for geographies of all sizes in 2010. This data is known as the “five-year estimate data.” The five-year estimate data is used by the FFIEC as the base file for data used in conjunction with consumer compliance and CRA examinations.<sup>2</sup>

**Area Median Income (AMI):** AMI means –

1. The median family income for the MSA, if a person or geography is located in an MSA, or for the metropolitan division, if a person or geography is located in an MSA that has been subdivided into metropolitan divisions; or
2. The statewide nonmetropolitan median family income, if a person or geography is located outside an MSA.

**Assessment area:** Assessment area means a geographic area delineated in accordance with section 228.41

**Automated teller machine (ATM):** An automated teller machine means an automated, unstaffed banking facility owned or operated by, or operated exclusively for, the bank at which deposits are received, cash dispersed or money lent.

**Bank:** Bank means a state member as that term is defined in section 3(d)(2) of the Federal Deposit Insurance Act (12 USC 1813(d)(2)), except as provided in section 228.11(c)(3), and includes an

---

<sup>2</sup> Source: FFIEC press release dated October 19, 2011.

uninsured state branch (other than a limited branch) of a foreign bank described in section 228.11(c)(2).

**Branch:** Branch refers to a staffed banking facility approved as a branch, whether shared or unshared, including, for example, a mini-branch in a grocery store or a branch operated in conjunction with any other local business or nonprofit organization.

**Census tract:** Small subdivisions of metropolitan and other densely populated counties. Census tract boundaries do not cross county lines; however, they may cross the boundaries of metropolitan statistical areas. They usually have between 2,500 and 8,000 persons, and their physical size varies widely depending upon population density. Census tracts are designed to be homogeneous with respect to population characteristics, economic status, and living conditions to allow for statistical comparisons.

**Combined Statistical Area (CSAs):** Adjacent metropolitan statistical areas/metropolitan divisions (MSA/MDs) and micropolitan statistical areas may be combined into larger Combined Statistical Areas based on social and economic ties as well as commuting patterns. The ties used as the basis for CSAs are not as strong as the ties used to support MSA/MD and micropolitan statistical area designations; however, they do bind the larger area together and may be particularly useful for regional planning authorities and the private sector. Under Regulation BB, assessment areas may be presented under a Combined Statistical Area heading; however, all analysis is conducted on the basis of median income figures for MSA/MDs and the applicable state-wide non metropolitan median income figure.

**Community Development:** The financial supervisory agencies have adopted the following definition for community development:

1. Affordable housing, including for multi-family housing, for low- and moderate-income households;
2. Community services tailored to meet the needs of low- and moderate-income individuals;
3. Activities that promote economic development by financing businesses or farms that meet the size eligibility standards of the Small Business Administration's Development Company or Small Business Investment Company programs (13 CFR 121.301) or have gross annual revenues of \$1 million or less; or
4. Activities that revitalize or stabilize low- or moderate-income geographies.

Effective September 1, 2005, the Board of Governors of the Federal Reserve System, Office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation have adopted the following additional language as part of the revitalize or stabilize definitions of community development. Activities that revitalize or stabilize:

- 1) Low- or moderate-income geographies;
- 2) Designated disaster areas; or
- 3) Distressed or underserved nonmetropolitan middle-income geographies

designated by the Board, Federal Deposit Insurance Corporation and Office of the Comptroller of the Currency based on:

- a. Rates of poverty, unemployment or population loss; or
- b. Population size, density and dispersion. Activities that revitalize and stabilize geographies designated based on population size, density and dispersion if they help to meet essential community services including the needs of low- and moderate-income individuals.

**Community Development Loan:** A community development loan means a loan that:

- 1) Has as its primary purpose community development; and
- 2) Except in the case of a wholesale or limited purpose bank –
  - a. Has not been reported or collected by the bank or an affiliate for consideration in the bank's assessment as a home mortgage, small business, small farm, or consumer loan, unless it is a multi-family housing loan (as described in the regulation implementing the Home Mortgage Disclosure Act); and
  - b. Benefits the bank's assessment area(s) or a broader statewide or regional area that includes the bank's assessment area(s).

**Community Development Service:** A community development service means a service that:

- 1) Has as its primary purpose community development; and
- 2) Is related to the provision of financial services.

**Consumer loan:** A loan(s) to one or more individuals for household, family, or other personal expenditures. A consumer loan does not include a home mortgage, small business, or small farm loan. This definition includes the following categories of loans: motor vehicle, credit card, other consumer secured loan, includes loans for home improvement purposes not secured by a dwelling, and other consumer unsecured loan, includes loans for home improvement purposes not secured.

**Family:** Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include non-relatives living with the family. Families are classified by type as either a married couple family or other family, which is further classified into "male householder" (a family with a male householder and no wife present) or "female householder" (a family with a female householder and no husband present).

**Fair market rent:** Fair market rents (FMRs) are gross rent estimates. They include the shelter rent plus the cost of all tenant-paid utilities, except telephones, cable or satellite television service, and internet service. HUD sets FMRs to assure that a sufficient supply of rental housing is available to their program participants. To accomplish this objective, FMRs must be both high enough to

permit a selection of units and neighborhoods and low enough to serve as many low-income families as possible. The level at which FMRs are set is expressed as a percentile point within the rent distribution of standard-quality rental housing units. The current definition used is the 40th percentile rent, the dollar amount below which 40 percent of the standard-quality rental housing units are rented. The 40th percentile rent is drawn from the distribution of rents of all units occupied by recent movers (renter households who moved to their present residence within the past 15 months). HUD is required to ensure that FMRs exclude non-market rental housing in their computation. Therefore, HUD excludes all units falling below a specified rent level determined from public housing rents in HUD's program databases as likely to be either assisted housing or otherwise at a below-market rent, and units less than two years old.

**Full review:** Performance under the Lending, Investment and Service Tests is analyzed considering performance context, quantitative factors (for example, geographic distribution, borrower distribution, and amount of qualified investments) and qualitative factors (for example, innovativeness, complexity and responsiveness).

**Geography:** A census tract delineated by the U.S. Bureau of the Census in the most recent decennial census.

**Home Mortgage Disclosure Act:** The statute that requires certain mortgage lenders that do business or have banking offices in metropolitan statistical areas to file annual summary reports of their mortgage lending activity. The reports include data such as the race, gender and income of the applicant(s) and the disposition of the application(s) (for example, approved, denied, and withdrawn).

**Home mortgage loans:** Are defined in conformance with the definitions of home mortgage activity under the Home Mortgage Disclosure Act and include closed end mortgage loans secured by a dwelling and open-end lines of credit secured by a dwelling. This includes loans for home purchase, refinancing and loans for multi-family housing. It does not include loans for home improvement purposes that are not secured by a dwelling.

**Household:** Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100 percent tabulations, the count of households always equals the count of occupied housing units.

**Income Level:** Income level means:

- 1) Low-income – an individual income that is less than 50 percent of the area median income, or a median family income that is less than 50 percent in the case of a census tract;
- 2) Moderate-income – an individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 percent and less than 80 percent in the case of a census tract;

- 3) Middle-income – an individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 percent and less than 120 percent in the case of a census tract; and
- 4) Upper-income – an individual income that is at least 120 percent of the area median income, or a median family income that is at least 120 percent in the case of a census tract.

*Additional Guidance: .12(m) Income Level: The median family income levels (MFI) for census tracts are calculated using the income data from the United States Census Bureau's American Community Survey and geographic definitions from the Office of Management and Budget (OMB) and are updated approximately every five years (.12(m) Income Level).*

**Limited-purpose bank:** This term refers to a bank that offers only a narrow product line such as credit card or motor vehicle loans to a regional or broader market and for which a designation as a limited-purpose bank is in effect, in accordance with section 228.25(b).

**Limited review:** Performance under the Lending, Investment and Services test is analyzed using only quantitative factors (for example, geographic distribution, borrower distribution, amount of investments and branch office distribution).

**Loan location:** Under this definition, a loan is located as follows:

- 1) Consumer loan is located in the census tract where the borrower resides;
- 2) Home mortgage loan is located in the census tract where the property to which the loan relates is located;
- 3) Small business and small farm loan is located in the census tract where the main business facility or farm is located or where the loan proceeds have been applied as indicated by the borrower.

**Loan product office:** This term refers to a staffed facility, other than a branch, that is open to the public and that provides lending-related services, such as loan information and applications.

**Market share:** The number of loans originated and purchased by the institution as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the MA/assessment area.

**Median Family Income (MFI):** The median income determined by the U.S. Census Bureau every ten years and used to determine the income level category of geographies. Also, the median income determined by the Department of Housing and Urban Development (HUD) annually that is used to determine the income level category of individuals. For any given area, the median is the point at which half of the families have income above it and half below it.

**Metropolitan Area:** A metropolitan statistical area (MSA) or a metropolitan division (MD) as



defined by the Office of Management and Budget. A MSA is a core area containing at least one urbanized area of 50,000 or more inhabitants, together with adjacent communities having a high degree of economic and social integration with that core. A MD is a division of a MSA based on specific criteria including commuting patterns. Only a MSA that has a single core population of at least 2.5 million may be divided into MDs. A metropolitan statistical area that crosses into two or more bordering states is called a multistate metropolitan statistical area.

**Multifamily:** Refers to a residential structure that contains five or more units.

**Nonmetropolitan area:** This term refers to any area that is not located in a metropolitan statistical area or metropolitan division. Micropolitan statistical areas are included in the definition of a nonmetropolitan area; a micropolitan statistical area has an urban core population of at least 10,000 but less than 50,000.

**Owner-occupied units:** Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

**Qualified Investment:** This term refers to any lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

**Rated area:** This term refers to a state or multistate metropolitan area. For institutions with domestic branch offices in one state only, the institution's CRA rating is the state's rating. If the institution maintains domestic branch offices in more than one state, the institution will receive a rating for each state in which those branch offices are located. If the institution maintains domestic branch offices in at least two states in a multistate metropolitan statistical area, the institution will receive a rating for the multistate metropolitan area.

**Small Bank:** This term refers to a bank that as of December 31 of either of the prior two calendar years, had assets of less than \$1.252 billion. Intermediate small bank means a small bank with assets of at least \$313 million as of December 31 of both of the prior two calendar years and less than \$1.252 billion as of December 31 of either of the prior two calendar years.

*Annual Adjustment: The dollar figures in paragraph (u)(1) of this section shall be adjusted annually and published by the Board, based on the year-to-year change in the average of the Consumer Price Index for Urban Wage Earners and Clerical Workers, not seasonally adjusted, for each 12-month period ending in November, with rounding to the nearest million.*

**Small Business Loan:** This term refers to a loan that is included in "loans to small businesses" as defined in the instructions for preparation of the Consolidated Report of Condition and Income. The loans have original amounts of \$1 million or less and are either secured nonfarm, nonresidential properties or are classified as commercial and industrial loans.

**Small Farm:** This term refers to a loan that is included in “loans to small farms” as defined in the instructions for preparation of the Consolidated Report of Condition and Income. These loans have original amounts of \$500 thousand or less and are either secured by farmland, including farm residential and other improvements, or are classified as loans to finance agricultural production and other loans to farmers.

**Wholesale Bank:** This term refers to a bank that is not in the business of extending home mortgage, small business, small farm or consumer loans to retail customers, and for which a designation as a wholesale bank is in effect, in accordance with section 228.25(b).